

**GOVERNMENT OF INDIA
FINANCE AND COMPANY AFFAIRS
LOK SABHA**

UNSTARRED QUESTION NO:2534
ANSWERED ON:07.03.2003
IMPACT OF POSSIBLE IRAQ US WAR
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Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

- (a) whether CII has made study on possible US-Iraq war and its impact on Indian economy ;
- (b) if so, the details in this regard with the suggestions and remarks given in study report; and ;
- (c) the response of the Union Government with their strategy?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE & COMPANY AFFAIRS (SHRI ANANDRAO VITHOBA ADSUL)

(a) & (b): In its report on the 'State of the Economy For Quarter ending December 2002', the Confederation of Indian Industry (CII) has made certain observations on the likely impact of a war in Iraq on the Indian economy. According to the report, the impact would depend on the extent of disruption in oil supplies. In case of limited disruption (restricted only to 2 million barrels of oil produced by Iraq daily), no substantial increase in oil prices is foreseen. However, in the event of disruptions by a greater extent, the effect on oil prices would depend upon the magnitude of the disruption, and the resulting impact on an economy would depend upon its energy use per dollar of GDP, and interlinkages with the world economy. The report points out that the impact of rising oil prices on prices of primary and manufactured products in India, is likely to be moderate, on account of the deflationary environment worldwide and increased competitive pressures in the domestic economy. The report also mentions that financing higher import bills would not be difficult given India's strong balance of payments. However, the report cautions about some fiscal pressures because of a likely increase in subsidies on petroleum products, and a decline in volume of remittances from expatriate Indians in the Middle East.

(c) The country is well equipped to finance higher import bills in the event of steep escalation in global oil prices. While there may be a temporary setback to Indian exports to the Gulf, overall exports are unlikely to be affected for long. Moreover, even if remittances from the Gulf reduce temporarily, given the observed tendency of a current account surplus in the balance of payments, and the comfortable level of foreign exchange reserves, vulnerability of balance of payments to such changes appears limited in the short run.